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**Chile**

**Solid Wood Products**

**Annual**

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**Report Highlights:**

**Chile's forest production expansion will continue as an increasing number of trees are reaching harvesting age, but exports are expected to grow only in volume in 2002, as prices for most forest products are still not recuperating.**

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Includes PSD changes: Yes

Includes Trade Matrix: Yes

Annual Report

Santiago [CI1], CI

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## **Executive Summary**

Although total output of Chile's forest sector grew in 2001 ( the area devoted to commercial forestry expanded by over 48,000 hectares), exports fell from \$2.37 billion in 2000 to \$2.21 billion in 2001.

For 2002, in spite of an increase in total volume, the value of total forest product exports is not expected to grow as prices for most products are falling. Industry sources indicate total export value will fall due to weaker demand in its main markets a slowdown in the United States, the main market for Chilean forestry products and an unchanged demand in several key European countries and Japan.

Development of Chile's forest products sector has occurred mainly through expanded commercial planting, with excellent adaptation of radiata pine and eucalyptus. Future growth of the forest industry is expected to occur through development of the relatively untouched and un managed native forests in southern Chile. However, the proposed native forest legislation has been stalled for several years.

## Forest Situation

There are three main forestry production areas in Chile: 1) the area between Regions VI (Rancagua) and VIII (Concepcion) where radiata pine and eucalyptus are predominant; 2) Regions IX (Temuco) and X (Osorno/Puerto Montt) which contain both native forests and plantations (radiata, and, more recently, eucalyptus); and 3) Chile's extreme southern Regions (XI and XII) which contain mostly native forests (lenga).

In CY2001, total planted area increased only by 48,302 hectares, while in the early nineties the total planted area increased by over 95,000 hectares annually. Industry sources indicate that the slowdown in planting is due to a number of factors, including less favorable planting and tax incentives in the new forestry law (DL 701), the high cost of land relative to neighboring countries, and the disruptive activities of ecologists. Nevertheless, total forest production will continue to expand as private tree farms reach harvest able age.

Chile's development of an important forest products sector is due to a great degree on the success of the radiata pine. The radiata matures in 20-24 years in Chile (with thinning available for use after only 15 years), compared to 30 years in New Zealand and Australia, and 40-60 years in North America and Europe. Since the pine grows so quickly in Chile, the wood is very soft.

**Table 1 - Annual Coniferous Growth Rate.-**

Annual Coniferous Growth Rate	
Country	Growth Rate ( <sup>M3</sup> /ha/yr)
Chile	24.0
New Zealand	20.0
United States	3.0
Sweden	2.9
Canada	2.2

**Table 2 - Total Chilean Radiata Pine and Eucalyptus Planting.**

<b>Total Chilean Radiata Pine and Eucalyptus Planting</b> December 2001 (In Hectares)		
Region	Eucalyptus	Radiata Pine
I (Northern border)	212	-
II	1	-
III	1,074	1
IV	2,184	655
V	42,868	14,959
Metropolitan	11,528	1,002
VI	28,692	68,288
VII	21,756	371,100
VIII	129,535	643,789
IX	82,063	270,095
X	56,864	127,451
XI	-	-
Total *	376,786	1,497,340
* Limited planting exists in Regions XI and XII.		
Source: Chile's Forestry Institute (INFOR).		

**Table 3 - Radiata Pine: Distribution by Age.**

<b>Radiata Pine: Distribution by Age</b> (Hectares)					
Age in Years	1965	1980	1990	2000	2001
0-5	19,663	303,994	325,626	433,861	440,432
6-10	52,612	192,220	344,426	276,435	298,537
11-15	86,233	76,959	396,240	319,025	309,523
16-20	69,858	51,974	142,772	297,982	301,825
21-25	27,003	44,655	40,307	120,231	126,236
26-30	4,395	33,898	10,363	17,742	12,952
31 or more	921	13,239	9,365	8,841	7,179
Source: Chile's Forestry Institute (INFOR).					

Eucalyptus is the second largest planted species in Chile. Planting has increased at a more rapid pace than for radiata during the last few years. Eucalyptus products command higher prices and can be harvested even sooner than radiata pine. By December 2001, over 376,000 hectares had been planted. Eucalyptus has great potential in Chile since it can be harvested after only 10 to 15 years. The growth capacity for Eucalyptus is up to 30 CUM per hectare per year.

Present estimates put total native forests at 13.4 million hectares. According to the industry, out of this total, an estimated 7.1 million hectares are considered to be productive. The exploitation of the mostly over-mature native forest consists primarily in selective cutting, mainly wood for chip production. Chilean native forests possess numerous tree species that have no known European or North American counterpart.

**Table 4 - Strategic Indicator Table: Forest Area**

STRATEGIC INDICATOR TABLE: FOREST AREA (million hectares/million cum)			
Country: CHILE	Previous	Current	Following
Report Year: 2002	Calendar Year	Calendar Year	Calendar Year
Total Land Area	75.7	75.7	75.7
Total Forest Area	15.7	15.7	15.7
--of which, Commercial	2	2	2
----of commercial, tropical hardwood	0		
----of commercial, temperate hardwood	0		
----of commercial, softwood	1.5	1.6	1.7
--of forest area, non-commercial			
Forest Type			
--Of which, virgin	13.5	13.5	13.5
--Of which, plantation	2	2	2
--Of which, other commercial (regrowth)	n/i	n/i	n/i
Forest Ownership			
--Nationally owned and no commercial access	8.7	8.7	8.7
--Nationally owned, commercial logging permitted	5.4	5.4	5.4
--Other publicly owned land, no commercial access	n/i	n/i	n/i
--Other publicly owned, logging permitted	n/i	n/i	n/i
--privately owned commercial forest	n/i	n/i	n/i
Total Volume of Standing Timber			
--Of which, Commercial Timber	162.2	160.4	159.8
Annual Timber Removal 1/	23.2	24.4	25.6
Annual Timber Growth Rate	25.4	29.8	33.2
Annual Allowable Cut	n/a	n/a	n/a

1/ If Removals exceeds growth rate, analyze impact in text.	
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## Forest Subsidy Program

The new Law Decree (DL) 701 is mainly designed to assist small farmers. Planting costs are subsidized by as much as 90 percent for the first 15 hectares and 75 percent for the remainder. A subsidy of only 15 percent of planting costs is available for larger farmers, when they plant land which has been severely eroded or land that can only be used for reforestation. A maximum of \$15 million dollars yearly is destined for this purpose. Special land tax exemptions are also part of the program. During 2001, over 21,000 hectares qualified for the planting subsidy, with payments totaling \$7.1 million. There are no subsidies under this new law for trimming and forest management. During the life of this program, from 1974 to the end of 2001, the Chilean government has paid \$211 million in subsidies.

**Table 5 - DL 701 Payment Summary.**

<b>DL - 701 Payment Summary</b>			
	Subsidy Amounts (US\$ Million)		Area Subsidized (Hectares)
	Period	Total	Total
Trimming	1983-01	12.7	407,393
Management	1978-01	28.2	7,108,259
Reforestation	1976-01	170.1	1,065,242
Source: Chile's Forestry Institute (INFOR).			

Additionally, a proposal called "Law for the Recovery and Promotion of the Native Forest" has been sitting in the Congress since 1992. The bill has gone through lengthy discussions and has still not been approved. It will provide a framework for the sustainable management of Chile's extensive native forests.

**Table 6 - Strategic Indicator Table: Wood Products Subsidies**

STRATEGIC INDICATOR TABLE: WOOD PRODUCTS SUBSIDIES			
Country: CHILE	Previous	Current	Following
Year of Report 2002	Calendar Year	Calendar Year	Calendar Year
Total Solid Wood Export Subsidy Outlay (\$US million)	0	0	0
Is there a ban on the export of logs, lumber, or veneer? If yes, which?	no	no	no
Are there export taxes (yes/no)? 1/	no	no	no
If yes, for which products? (Identify export tax level in tariff table)			
Source(s) of Export Subsidy Information			
Total Wood Production Subsidy Outlay (\$US million)			
Are there any programs favoring the development of commercial forestry?	planting subsidy	planting subsidy	planting subsidy
If yes, Post best estimate of scope (thousands of hectares)	42.7	21.9	25.1
If yes, Post's best estimate of financial outlay (\$US million)	11.6	7.1	8.0
Source(s) of Production Subsidy Information	INFOR	INFOR	INFOR
Does the country support export expansion activities similar to the Cooperator Program?	no	no	no
--Which country markets are targeted?			
--Which products are targeted?			
Are there significant wood products export expansion activities at the provincial or regional level?	no	no	no
--If yes, identify key players			
--If yes, identify key market segments			

--If yes, identify key country markets			
--If yes, identify key products			
--Post's estimate for combined outlay (\$US million)			
Source(s) of Provincial/Regional Support Information			
Are there other wood products export expansion activities? If yes, describe in report.	no	no	no

## Trade Policy

Although Chile has signed trade agreements with many countries, among them Mexico, Canada and Mercosur, these are not Chile's most important forest products trading partners. Presently, Chile has a zero duty agreement with Canada and Mexico for both exports and imports, and reduced duties with Mercosur depending on the product. For all other countries, Chile has 7 percent import duty, which will drop to a permanent level of 6 percent after 2003.

## Forest Production

Total Roundwood production increased to 37.8 billion CUM in 2001, up from 36.6 billion in 2000. For 2002, production is expected to grow further as tree farms reach maturity and are harvested for lumber.

Around 68 percent of Roundwood output is used by the forestry industry. The remainder is used for firewood. Commercial utilization of Roundwood includes pulp, wood chips, sawn wood and lumber production. At least one half of Chile's population uses firewood in their homes for heating and cooking purposes.

Tree farm thinning are the main source of Roundwood for pulp logs. Wood chips are mainly a by-product of sawmill operations.

**Table 7 - Roundwood Production.**

CHILE: Roundwood Production			
	Forest Area (Thousand Ha.)		Roundwood Harvest (1,000 M <sup>3</sup> )
	Planted	Native	
1994	1,748	7,493	31,066
1995	1,818	7,493	34,956
1996	1,836	7,123	33,388
1997	1,882	7,123	34,056
1998	1,914	7,123	31,672

1999	1,952	7,123	33,972
2000	1,989	13,404	36,568
2001	2,037	13,404	37,790
Source: Chile's Forestry Institute (INFOR).			

## Forestry Trade

### Exports

In 2001, Chile's forest product exports totaled \$2.21 billion, down from \$2.37 billion the year before. Industry sources believe the economic slowdown in the US economy has contributed to this decline. For the same reason, forestry export sales are expected only to reach similar levels in 2002, as the main markets still show weak demand.

Predictions speak of how, the economy and the construction sector in the United States will develop, the main market for Chilean forestry products in terms of sales, and positive changes in the demand in the main European countries and Japan may offset declines in the US construction sector.

The U.S. was Chile's largest export market again in 2001, accounting for over 23 percent of total exports, followed by Japan with close to 13 percent of total exports.

Chile's forestry product industry may encounter new difficulties in the export market in the coming years as during last few weeks there have been press reports that some NGOs in Chile and the US have launched a campaign to boycott Chilean pine exports. NGOs claim that Chile's natural forests are in danger of extinction as a result of the constant replacement of Native Forest with pine plantations. For this reason a call is being made to only buy Chilean pine wood products certified by the Forest Stewardship Council (FSC). The forest industry and government officials have traditionally preferred a domestic certifier, instead of the FSC's certification, and the Government is concerned that the NGOs may be using outdated information in their campaign. FSC has publicly denied any relationship with the NGOs campaign.

**Table 8 - Forestry Export by Destination.**

Chile's Forestry Export by Destination (US\$ Million, FOB)			
Country	1999	2000	2001
United States	486.1	466.6	512.0
Japan	271.0	302.2	274.7
China	98.9	144.9	241.0
Mexico	28.0	64.2	94.6

Italy	82.5	152.8	91.4
Netherlands	6.2	9.1	90.8
Peru	63.5	78.5	83.5
Others	918.9	1,146.9	817.6
Total Exports	1,955.1	2,365.2	2,205.6
Source: Chile's Forestry Institute (INFOR).			

**Table 9 - Forest Product Export by Major Commodity.**

<b>Chile's Forest Product Export by Major Commodity</b> (US\$ Million, FOB)			
Commodity/Product	1999	2000	2001
Sawn wood	172.0	189.7	178.8
Wood Chips	133.0	133.7	148.1
Plywood and Boards	115.7	123.8	144.6
Roundwood Logs	47.1	35.8	26.3
Other	640.5	667.6	733.6
Total Forest Product Exports	1,108.3	1,150.6	1,231.9
Wood Pulp	762.7	1,110.4	863.2
Newsprint	84.1	104.1	110.5
Total Forest Sector Exports	1,955.1	2,365.2	2,205.6
Source: Chile's Forestry Institute (INFOR).			

## Imports

Chile's forest product imports totaled \$536 million in 2001, down from \$542 million in 2000. For the coming year, imports are not expected to expand significantly, as construction has slowed down along with the local economy.

Chile has an across the board import duty of 7 percent for the year 2002, which will drop to a permanent level of 6 percent after 2003. Additionally Chile has signed free trade agreements with several countries, among them: Mexico Venezuela, Colombia and Ecuador. All wood product imports from these countries are duty free. Similarly most forest product imports from MERCOSUR member countries are duty free with the exception of the products detailed in the

following table.

**Table 10 - Forest Product Tariffs for Countries with Trade Agreements.**

<b>FOREST PRODUCT TARIFFS (percent)</b>						
Country: CHILE ; Report Year: 2002.						
	MERCOSUR		PERU		BOLIVIA	
	Current Year	Following Year	Current Year	Following Year	Current Year	Following Year
4402.0000	1.54	0.9	0.0	0.0	0.0	0.0
4403.9990	1.54	0.9	0.0	0.0	0.0	0.0
4407.1090	1.54	0.9	0.0	0.0	0.0	0.0
4407.2400	0.00	0.0	0.0	0.0	4.6	4.0
4407.2900	0.00	0.0	0.0	0.0	4.6	4.4
4407.9100	0.00	0.0	0.0	0.0	4.6	4.4
4407.9990	1.54	0.9	0.0	0.0	0.0	0.0
4408.1090	1.54	0.9	0.0	0.0	0.0	0.0
4408.3900	1.54	0.9	0.0	0.0	0.0	0.0
4408.9010	1.54	0.9	0.0	0.0	0.0	0.0
4408.9090	0.80	0.7	0.0	0.0	0.0	0.0
4409.1090	1.54	0.9	0.0	0.0	0.0	0.0
4409.2000	0.80	0.7	0.0	0.0	0.0	0.0
4410.1900	2.80	1.8	0.0	0.0	0.0	0.0

4411.1100	1.54	0.9	0.0	0.0	0.0	0.0
4411.1900	2.80	1.8	0.0	0.0	0.0	0.0
4412.1300	1.54	0.9	0.0	0.0	0.0	0.0
4412.1400	1.54	0.9	0.0	0.0	0.0	0.0
4412.1910	1.54	0.9	0.0	0.0	0.0	0.0
4412.1990	0.80	0.7	0.0	0.0	0.0	0.0
4412.2900	1.54	0.9	1.2	0.0	0.0	0.0
4412.9990	0.80	0.7	0.0	0.0	0.0	0.0
4415.1000	1.54	0.9	0.0	0.0	0.0	0.0
4415.2000	1.30	1.1	0.0	0.0	0.0	0.0
4417.0000	1.54	0.9	0.0	0.0	0.0	0.0
4418.2000	2.80	1.8	1.2	0.0	0.0	0.0
4418.3000	1.54	0.9	0.0	0.0	0.0	0.0
4418.4000	1.54	0.9	0.0	0.0	0.0	0.0
4418.9000	1.54	0.9	1.2	0.0	0.0	0.0
4419.0000	1.54	0.9	1.2	0.0	0.0	0.0
4412.1000	1.54	0.9	0.0	0.0	0.0	0.0
4421.9010	1.54	0.9	0.0	0.0	0.0	0.0
4421.9090	1.54	0.9	0.0	0.0	0.0	0.0

Source: Ministry of Agriculture (ODEPA).

**Table 11 - Strategic Indicator Table: Forest Product Tariffs and Taxes**

STRATEGIC INDICATOR TABLE: FOREST PRODUCT TARIFFS AND TAXES (percent)						
		Tariff	Tariff	Other		
Country: CHILE	Product	Current	Following	Import	Total Cost	Export
Report Year: 2002	Description 1/	Year	Year	Taxes/Fees	of Import	Tax

4401		7	6	0	7	0
4403		7	6	0	7	0
4404		7	6	0	7	0
4405		7	6	0	7	0
4406		7	6	0	7	0
4407		7	6	0	7	0
4408		7	6	0	7	0
4409		7	6	0	7	0
4410		7	6	0	7	0
4411		7	6	0	7	0
4412		7	6	0	7	0
4413		7	6	0	7	0
4414		7	6	0	7	0
4415		7	6	0	7	0
4416		7	6	0	7	0
4417		7	6	0	7	0
4418		7	6	0	7	0
4419		7	6	0	7	0
4420		7	6	0	7	0
4421		7	6	0	7	0
4422		7	6	0	7	0
4423		7	6	0	7	0
4424		7	6	0	7	0
4425		7	6	0	7	0
Pre-fabricated Houses, a subsection under chapter 96		7	6	0	7	0
1/ Insert additional lines for Commodity tariff identification should tariffs vary within the four-digit designation.						

## Wood Chips

Wood chip output in 2001 was larger than our preliminary estimates. In spite of the reported slowdown of the Japanese economy, an expected upswing of wood pulp prices increased the demand for wood chips in 2001. For 2002, industry sources expect production and exports to remain at a similar level to 2001, as there are no definite signs that the Japanese economy will recuperate. Japan is Chile's only export market for wood chips..

**Table 12 - Chile's Wood Chip Production.**

Chile's Wood Chip Production (In Thousand Metric Tons)				
Year	Total	Radiata Pine	Native	Eucalyptus
1995	6,073	2,412	2,569	1,065
1996	4,996	2,373	1,757	857
1997	4,926	2,199	1,791	935
1998	4,487	2,031	1,338	1,112
1999	4,837	2,241	1,016	1,544
2000	5,091	2,380	719	1,968
2001	5,257	2,372	386	2,464
Source: Chile's Forestry Institute (INFOR).				

Chile has a large number of chipping facilities with widely varying capacities. Most facilities are located in Region VIII (Concepcion). Over 50 percent of Chile's wood chip production is exported and all of it goes to Japan's paper and pulp industries.

**Table 13 - Wood Chip Exports for 2001.**

<b>Chile's Wood Chip Exports for 2001</b>			
Type	Volume Thousand MT	Value Million US\$	Unit Value US\$/MT
Radiata Pine	117.5	3.6	31
Eucalyptus	2,395.1	128.5	54
Native Forest	381.1	14.7	39
Total	2,893.7	146.8	
Source: Chile's Forestry Institute (INFOR).			

**PS&D Table - Wood Chips**

PSD Table						
Country	Chile					
Commodity	Wood Chips				(1000 MT)	
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		01/2001		01/2002		01/2003
Production	5000	5257	5050	5250	0	5300
Imports	0	0	0	0	0	0
TOTAL SUPPLY	5000	5257	5050	5250	0	5300
Exports	2570	2894	2590	2890	0	2890
Domestic Consumption	2430	2363	2460	2360	0	2410
TOTAL DISTRIBUTION	5000	5257	5050	5250	0	5300

**Export Trade Matrix - Wood Chips**

Export Trade Matrix			
Country	Chile		
Commodity	Wood Chips		
Time period	Jan-Dec	Units:	M.T.

Exports for:	2000		2001
U.S.	0	U.S.	0
Others		Others	
Japan	2617817	Japan	2893716
Lebanon	22726		
Total for Others	2640543		2893716
Others not Listed	0		0
Grand Total	2640543		2893716

## Softwood Logs

Total softwood log production expanded again in 2001. In the coming years, expansion will most likely continue as a larger number of trees are going to be available for harvest, but at a slower rate than in the past as export demand, mainly of softwood logs for pulp fell significantly. Industry sources indicate a significant increase in transportation costs contributed to the decline in demand. For 2002 and the coming years, foreign demand for softwood logs is expected to expand moderately.

**Table 14 - Average Softwood Log Prices.**

Average Softwood Log Prices (US\$ per CUM)								
	1980	1984	1994	1997	1998	1999	2000	2001
Export	54	33	63	62	52	49	46	48
Domestic	18	12	38	42	39	35	37	31
CH\$/US\$	39.0	98.3	420.2	419.3	460.0	508.8	539.5	634.9
Source: Chile's Forestry Institute (INFOR).								

**PS&D Table - Softwood Logs**

PSD Table						
Country	Chile					
Commodity	Softwood Logs				1000 CUBIC METERS	
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		01/2001		01/2002		01/2003
Production	12100	12769	12300	13200	0	13600
Imports	0	0	0	0	0	0
TOTAL SUPPLY	12100	12769	12300	13200	0	13600
Exports	140	156	140	190	0	210
Domestic Consumption	11960	12613	12160	13010	0	13390
TOTAL DISTRIBUTION	12100	12769	12300	13200	0	13600

**Export Trade Matrix - Softwood Logs**

Export Trade Matrix			
Country	Chile		
Commodity	Softwood Logs		
Time period	Jan - Dec	Units:	CUM
Exports for:	2000		2001
U.S.	0	U.S.	1290
Others		Others	
Japan	95260	Japan	117745
So. Korea	63654	So. Korea	29948
		Kurdistan	5011
		U. A. Emirate	2306
		China	25

Total for Others	158914		155035
Others not Listed	0		
Grand Total	158914		156325

## Softwood Lumber

Although declining in importance relative to other sectors in the forest industry, saw milling is a traditional activity in Chile and remains the single largest consumer of logs, with pine logs making up close to 80 percent of total inputs. Close to a third of the lumber produced is exported, mostly output from larger sawmills. The remaining two-thirds is consumed locally. Production of softwood lumber is expected to grow in the next few years, but exports will probably not grow at the same rate because the industry is trying to add value to its output by increasing its exports of manufactured wood products. However, in the long term, exports of softwood lumber will rise as the availability of knot-free lumber increases. The increased availability of knot-free lumber is attributed to subsidized pruning and forest management under DL 701.

Softwood lumber expanded again in 2001, when compared to the previous year due to a relative strong export demand for sanded softwood lumber. For 2002 and 2003, production is expected to increase further as the export demand gets stronger and the local construction business recuperates.

**Table 15 - Average Softwood Lumber Prices.**

<p style="text-align: center;"><b>Average Softwood Lumber Prices</b> (US\$/CUM)</p>
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	1980	1984	1994	1997	1998	1999	2000	2001
Export	113	79	163	172	146	136	137	127
Domestic	76	31	91	100	90	80	76	61
CH\$/US\$	39.0	98.3	420.2	419.3	460.0	508.8	539.5	634.9
Source: Chile's Forestry Institute (INFOR).								

**PS&D Table Softwood Lumber**

PSD Table						
Country	Chile					
Commodity	Softwood Lumber				1000 CUBIC METERS	
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		01/1996		01/1997		01/1998
Production	5650	5581	5900	6140	0	6400
Imports	0	0	0	0	0	0
TOTAL SUPPLY	5650	5581	5900	6140	0	6400
Exports	1720	1767	1760	1940	0	2000
Domestic Consumption	3930	3814	4140	4200	0	4400
TOTAL DISTRIBUTION	5650	5581	5900	6140	0	6400

**Export Trade Matrix - Softwood Lumber**

Export Trade Matrix			
Country	Chile		
Commodity	Softwood Lumber		
Time period	Jan - Dec	Units:	CUM
Exports for:	2000		2001
U.S.	382436	U.S.	358224
Others		Others	
Japan	496437	Japan	417280
Saudi Arabia	144059	Mexico	214376
UA Emirates	110964	Saudi Arabia	174611
Mexico	82675	UA Emirates	119853

Taiwan	74743	Morocco	57250
Morocco	48141	Dom.Republic	44597
Egypt	47228	Egypt	42079
U.K.	42056	Taiwan	41898
Dom.Republic	32498	Spain	41074
Spain	31899	So. Korea	38825
Total for Others	1110700		1191843
Others not Listed	175214		217331
Grand Total	1668350		1767398